

Message Text

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ACTION SS-15

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FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 2992

C O N F I D E N T I A L ALGIERS 1936

FOR UNDERSECRETARY ROBINSON FROM AMBASSADOR

E.O. 11652: GDS

TAGS: PFOR, ENRG, AG, US

SUBJECT: CHEMICO CONTRACT

REF: STATE 203496

1. JOHN NICHOLS, EXECUTIVE VICE PRESIDENT OF AEROJET GENERAL, CALLED ON ME AUGUST 31 FOLLOWING A MEETING SAME DAY WITH SONATRACH PRESIDENT GHOZALI. NICHOLS SAID HE HAD EXPLAINED TO GHOZALI CHEMICO'S IMMEDIATE CASH FLOW PROBLEMS AND COMPANY'S UNWILLINGNESS TO PUT MORE OF ITS OWN MONEY INTO ARZEW PROJECT AND HAD REQUESTED THAT SONATRACH ACCELERATE PAYMENTS UNDER LETTER OF CREDIT TO PROVIDE CHEMICO WITH DOLS 14.7 MILLION FOR SEPTEMBER (VS REGULARLY SCHEDULED PAYMENT OF ABOUT DOLS 5 MILLION). GHOZALI REPORTEDLY RESPONDED BY CITING CONSULTANT'S REPORT THAT CHEMICO DID NOT HAVE SEPTEMBER CASH FLOW PROBLEM. NICHOLS STRESSED TO ME, HOWEVER, THAT GOA, AS OPPOSED GHOZALI, NOT READY TO ACCELERATE PAYMENTS REGARDLESS OF CONSULTANT'S FINDINGS AND MAINTAINED THAT GHOZALI HAD FINALLY SAID AS MUCH. NICHOLS BELIVES SONATRACH HAS POLITICAL PROBLEM WITH MINISTRY OF FINANCE AND STRONGLY WISHES TO AVOID SEEKING MINISTRY OF FINANCE APPROVAL FOR ACCELERATION OF PAYMENTS. ACCORDING NICHOLS, SONATRACH HAS ALWAYS BEEN READY IN PRINCIPLE TO ACCELERATE PAYMENTS, BUT POLITICAL PROBLEMS PREVENT IT FROM DOING SO.

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2. WHETHER OR NOT NICHOLS IS RIGHT AS TO BASIS FOR SONATRACH ATTITUDE, FACT REMAINS THAT NICHOLS FAILED TO GET COMMITMENT RE ADDITIONAL CASH FOR SEPTEMBER AND THUS SONATRACH DID NOT PASS CHEMICO'S "CHECKMARK OF INTENTIONS." NICHOLS RESPONSE TO THIS WAS TO TELL GHOZALI THAT PACE OF CONSTRUCTION WILL BE SIGNIFICANTLY SLOWED UNTIL ADDITIONAL CASH FORTHCOMING. CHEMICO NOW AT STAGE WHERE IT READY TO ENTER INTO NEW COMMITMENTS WITH SUPPLIERS. THESE CAN AND WILL BE POSTPONED. SONATRACH'S POSITION, ACCORDING NICHOLS, WAS THAT CHEMICO SHOULD WAIT UNTIL SONATRACH SENDS REP TO US EXIMBANK IN EARLY SEPTEMBER TO SEEK COMMITMENT TO COVER UNSPECIFIED AMOUNT OF PROJECT OVERRUN UP TO CERTAIN MAXIMUM. CHEMICO AND SONATRACH WOULD THEN SIT DOWN BEFORE END OF SEPTEMBER AND WORK OUT DETAILS OF AMOUNT AND TIMING OF ACCELERATED PAYMENTS. THIS PROPOSAL DID NOT ALTER CHEMICO'S INTENTION TO SLOW DOWN, SINCE NICHOLS BELIEVES ADDITIONAL EXIM FUNDS BEFORE END OF SEPTEMBER UNLIKELY.

3. DURING MY TALK WITH NICHOLS, I WAS STRUCK BY HIS VERY PESSIMISTIC ATTITUDE RE PROJECT. AT ONE POINT I NOTED TO HIM THAT THERE SEEMED TO BE CRISIS OF CONFIDENCE INVOLVED. ALGERIANS HAD IMPRESSION THAT CHEMICO WANTED TO GET OUT OF CONTRACT. NICHOLS REPLIED THAT HE HOPED ALGERIANS HAD GOT THAT MESSAGE. MY STRONG IMPRESSION WAS THAT AEROJET GENERAL WOULD LIKE NOTHING BETTER THAN TO WASH ITS HANDS OF AN UNPROFITABLE CONTRACT.

4. I HAVE AN APPOINTMENT TO SEE GHOZALI SEPTEMBER 3 AND WILL REPORT RESULTS TOGETHER WITH FURTHER POLICY RECOMMENDATIONS.PARKER

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